

Message Text

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PAGE 01 COPENH 00417 01 OF 02 220807Z
ACTION EUR-12

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TO SECSTATE WASHDC 3874
INFO AMEMBASSY BONN
USMISSION EC BRUSSELS
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
USMISSION NATO
USDEL MTN GENEVA
USMISSIONOECD PARIS
USUN NEW YORK 716
AMEMBASSY OSLO
AMEMBASSY STOCKHOLM
AMEMBASSY HELSINKI

UNCLAS SECTION 1 OF 2 COPENHAGEN 417

EO 11652: N/A
TAG: ECIN, DA
SUBJECT: DANISH ECONOMY

SUMMARY: THERE FOLLOWS A BRIEF REVIEW OF THE DANISH
ECONOMY IN 1976 AND PROSPECTS FOR 1977. THE REVIEW IS BASED
ON MATERIAL SUBMITTED SEPARATELY IN THE EMBASSY'S SEMI-ANNUAL
ECONOMIC TRENDS REPORT.
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PAGE 02 COPENH 00417 01 OF 02 220807Z

1. LITTLE OR NO NEW GROWTH FOLLOWING EXPANSION IN
1975-THE DANISH ECONOMY BEGAN TO MOVE OUT OF RECESSION IN
LATE 1975. IT REMAINED MODERATELY EXPANSIVE THROUGHOUT 1976
WITH AN ANNUAL GROWTH RATE AT THE OECD AVERAGE OF FIVE PERCENT.
SEVERAL FACTORS, HOWEVER, TENDED TO SLOW EXPANSION AS THE
YEAR PASSED, POINTING TOWARD ONLY A NOMINAL GROWTH RATE IN

1977. IF THE EXPORT PERFORMANCE THIS YEAR IS LESS FAVORABLE THAN EXPECTED, THE ECONOMY MIGHT EVEN TURN MODERATELY RECESSIONARY AGAIN.

2. DOMESTIC DEMAND FACTORS DOMINATE DEVELOPMENTS - DOMESTIC DEMAND ROSE BY 8 PERCENT IN 1976, EXPORT DEMAND BY ABOUT HALF THAT RATE, AND AGGREGATE DEMAND BY 7 PERCENT. SINCE A GOOD PART OF THE INCREASED DEMAND WAS COVERED BY IMPORTS, INCREASING AT THE RATE OF NOT LESS THAN 17 PERCENT, DOMESTIC PRODUCTION GAINED RELATIVELY LESS AND ROSE BY ONLY 5 PERCENT. THIS WAS ENOUGH TO ABSORB THE NOMINAL INCREASE IN THE LABOR FORCE OF LESS THAN ONE PERCENT BUT NOT ENOUGH TO REDUCE UNEMPLOYMENT FROM THE 5 PERCENT LEVEL REACHED IN 1975. SINCE DOMESTIC DEMAND MAY DROP SLIGHTLY IN 1977, IT WILL REQUIRE A FAIRLY LARGE INCREASE IN EXPORTS TO KEEP THE ECONOMY OVERALL OUT OF THE RED. PROSPECTS ARE THAT EXPANSION WILL, AT BEST, BE NOMINAL.

3. UPS AND DOWNS AGAIN - BOOSTED BY THE TEMPORARY VAT REDUCTION, HOUSING INCREASED 20 PERCENT IN 1976 AFTER AN 18 PERCENT DECLINE IN 1975. HOUSING IN 1977 IS EXPECTED TO SHOW A 25 PERCENT DECLINE. EMPLOYMENT IN THE HOUSING SECTOR WILL ALSO BE AFFECTED ADVERSELY BY THE TERMINATION OF ENERGY SAVING INCENTIVES, SUCH AS INSULATION SUBSIDIES.

4. INVESTMENT OUT OF SLUMP BUT LITTLE FURTHER RISE
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PAGE 03 COPENH 00417 01 OF 02 220807Z

INDICATED - BUSINESS INVESTMENT, WHICH STAGNATED IN 1974 AND DROPPED BY 15 PERCENT IN 1975, REGISTERED SUBSTANTIAL RECOVERY IN 1976, PROBABLY BY AS MUCH AS 13 PERCENT. IMPROVEMENT WAS EVIDENCED IN PLANT CONSTRUCTION AND EQUIPMENT PURCHASES. SINCE DOMESTIC DEMAND IN 1977 WILL PROBABLY DECLINE, ANY FURTHER INCREASE IN INVESTMENT WILL DEPEND ON FAVORABLE EXPORT DEVELOPMENTS. CURRENT PROSPECTS ARE THAT IT WILL STABILIZE AT THE PRESENT LEVEL OR, AT BEST, INCREASE NOMINALLY.

5. MANUFACTURES RISE AS FARM PRODUCTION DROPS - MANUFACTURING INDUSTRIES IN 1976 ACCOMPLISHED AN INCREASE OF ABOUT 8 PERCENT IN PRODUCTION WITH LESS THAN A 2 PERCENT INCREASE IN WORKING HOURS INPUT, REFLECTING A HANDSOME PRODUCTIVITY GAIN. PRODUCTION IN MANUFACTURING FELL ALMOST AS MUCH IN 1975 AS IT ROSE IN 1976, AND TOTAL EMPLOYMENT SINCE 1974 HAS DROPPED 12 PERCENT. IN THE FARM SECTOR PRODUCTION

DROPPED IN 1976 IN ANIMAL PRODUCTS AS WELL AS IN
FIELD CROPS, BUT AS THE LARGELY OWNER-OPERATED
DANISH FARMS EMPLOY LITTLE HIRED LABOR, THIS DID
NOT AFFECT EMPLOYMENT MUCH.

6. IMPORTS OUTRANK EXPORTS - DANISH IMPORTS IN 1976
ROSE FAR MORE THAN EXPORTS WITH DETRIMENTAL
EFFECTS FOR THE DANISH TRADE AND PAYMENTS BALANCES.

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PAGE 01 COPENH 00417 02 OF 02 220753Z
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UNCLAS SECTION 2 OF 2 COPENHAGEN 417

IMPORTS ROSE 17-19 PERCENT; EXPORTS NO MORE THAN
4 PERCENT. AN IMPORTANT FACTOR WAS THE SWING
IN INVENTORUS, WHICH WERE DRAMATICALLY REDUCED IN
1975 BUT REPLENISHED IN 1976. ALTOGETHER, THE
TRADE DEFICIT MORE THAN DOUBLED IN 1976 AND THE

CURRENT PAYMENTS DEFICIT TRIPLED, APPROACHING TWO BILLION DOLLARS. FOR 1977 THERE IS HOPE THAT DEFICITS WILL BE REDUCED. THIS HOPE IS BASED ON HOLDING IMPORTS UNCLASSIFIED

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PAGE 02 COPENH 00417 02 OF 02 220753Z

AT PRESENT LEVELS AND INCREASING EXPORTS BY 7 PERCENT. BOTH FORECASTS APPEAR A BIT SANGUINE, HOWEVER.

7. EXCHANGE RATE PROTECTED BY FOREIGN BORROWING AND "SNAKE" PARTICIPATION - THE PROBLEM OF FINANCING THE LARGE AND GROWING DEFICIT ON THE CURRENT BALANCE OF PAYMENTS WAS AGGRAVATED SEVERAL TIMES DURING 1976 WHEN PRIVATE CAPITAL OUTFLOWS EXERTED SPECULATIVE PRESSURES AGAINST THE DANISH KRONE. AFTER A LIMITED RE-ALIGNMENT OF THE SNAKE CURRENCIES TOOK PLACE IN OCTOBER 1976, HOWEVER, THE SITUATION REVERSED AND AN ABNORMAL FLOWBACK OF RESERVES ENSUED. DURING 1976, THE DANISH GOVERNMENT BORROWED SOME TWO BILLION DOLLARS ABROAD AND RESERVES WERE BY THE END OF THE YEAR RE-ESTABLISHED AT THEIR PREVIOUS LEVEL. THE ABNORMAL FLOWBACK OF RESERVES SEEM TO HAVE CEASED AND THE KRONE HAS BEGUN TO MOVE DOWNWARDS TOWARD A LEVEL THAT REFLECTS THE ACTUAL POSITION OF DANISH INTERNATIONAL PAYMENTS AND RESERVES. ALTHOUGH SOME REDUCTION IN THE TRADE AND PAYMENTS DEFICITS CAN BE ANTICIPATED IN 1977, INTERNATIONAL FINANCING REQUIREMENTS WILL REMAIN LARGE.

8. BUDGET DEFICITS AND INCOMES RESTRAINT - THE DANISH GOVERNMENT ALSO HAS FINANCING PROBLEMS AT HOME. IN BOTH 1975 AND 1976 GOVERNMENT ACTIVITY IN REAL TERMS ROSE ONLY marginally BUT BUDGET DEFICITS OCCURRED AT RATES NEVER SEEN BEFORE. THE DANISH GOVERNMENT, FOR THE FIRST TIME SINCE 1960, TURNED TO BOND FINANCING OF THE BUDGET, THOUGH WITH LIMITED SUCCESS. POLITICALLY, THE GOVERNMENT HAS LITTLE ROOM FOR MANEUVER, FISCALLY OR MONETARILY, AND HAS, FOR THAT REASON AS WELL AS IN THE INTEREST OF A FURTHER BRAKE ON INFLATION, TURNED TOWARD INCOMES POLICY MEASURES. A NARROW POLITICAL MAJORITY HAS PEGGED WAGE INCREASES FOR THE NEXT TWO UNCLASSIFIED

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PAGE 03 COPENH 00417 02 OF 02 220753Z

YEARS TO A SIX PERCENT PER ANNUM LIMIT BUT WHETHER THIS POLICY CAN BE IMPLEMENTED WITHOUT LABOR UNREST REMAINS TO BE SEEN.

9. INFLATION DOWN-BOTH PRICE AND WAGE INFLATION HAVE BEEN REDUCED FROM THE RECORD RATES OF 18 PERCENT AND 22 PERCENT IN 1974 AND 1975 TO ABOUT HALF AS MUCH IN 1976. MUCH FURTHER REDUCTION IN 1977 SEEMS IMPROBABLE, THOUGH THE DANES WILL TRY TO HOLD COST LEVELS DOWN IN ORDER TO IMPROVE THEIR COMPETITIVE POSITION INTERNATIONALLY.

10. IMPLICATIONS FOR THE UNITED STATES - IMPORTANT AMERICAN EXPORTS TO DENMARK ARE VARIOUS FARM PRODUCTS, CHEMICALS, INCLUDING FERTILIZERS AND PLASTICS, WOOD BUILDING MATERIAL, AND A VARIETY OF INDUSTRIAL EQUIPMENT AND INSTRUMENTS. THE GREATEST BENEFITS FOR AMERICAN EXPORTS TO DENMARK IN 1977 ARE LIKELY TO BE REAPED BY FARM PRODUCTS. INDUSTRIAL GOODS WILL AT BEST EXPAND VERY LITTLE IN 1977 AND MAY REQUIRE SOME CONCENTRATED EFFORTS TO PRESERVE PRESENT EXPORT LEVELS.
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